

## Sign of the Times: How to Know When to Add Permanently Affordable, Shared Equity Housing Options to Your Middle Neighborhood

The recent escalation of home values across the nation, combined with an increase in investor purchases, has made homeownership a more elusive goal for many households who want to live in middle neighborhoods. Shared equity housing (SEH) programs are innovative approaches that support the dream of homeownership for households who would otherwise not be able to purchase. SEH is an umbrella term for housing accessibility models that balance the benefits of individual homeownership with an overall benefit of maintaining affordable housing options in the community for the long term. As practitioners and local governments ponder affordability in their communities, what are the signs that show it's time to add shared equity housing to the options available in your middle neighborhood?

Shared equity housing (SEH) strategies keep purchase prices affordable over time by covering part of the initial purchase price and then later sharing in any profits from appreciation when the home is sold. One common model, a "land trust," is when the land under a home is purchased and owned by an entity that supports the strategy, while homes sitting on the land are purchased and maintained by individual buyers. The landowner maintains ownership of the land permanently and the income-qualified buyer owns the home until they decide to sell it to the next buyer, who must also be income qualified. The homeowner's share of the profit through price appreciation is usually capped at a certain percentage each year, meaning appreciation is limited but aligns with the initial investment. The entity supporting the strategy reinvests its share of the profit to keep that home affordable for the next buyer, plus invests in additional properties. This creates lasting affordability for SEH homes in the community.

Time and experience have provided housing advocates with sufficient detail on *how* to implement shared equity strategies, but the question of *when* may be less certain. While circumstances may not always be clear, there are signs to watch for. We asked practitioners working on middle neighborhood revitalization, who typically offered only traditional home ownership opportunities, to tell us how they came to the decision that it was time to offer SEH options. Following is some of their advice, which starts with a close look at the marketplace. It's important to take the time to evaluate opportunities as well as trends including:

High Costs	If high subsidies are needed to make traditional homeownership accessible or subsidies have increased rapidly over the past few years, that may be a sign that SEH programs are in order. Practitioners said it became clear when providing subsidies for traditional purchases seemed unsustainable as a business model, and no longer secured affordability for the long term.
Increasing Buyer Challenges	Take notice of the obstacles that buyers are facing and whether those obstacles are insurmountable. High debt loads including student and credit card debt, increased costs of living and housing prices, and other financial challenges, make it difficult to build savings and decrease debt loads. Evaluate whether financial issues can be fixed within a few months or will take many years to overcome.
Signs of Gentrification	Middle neighborhoods are typically affordable and offer a diverse mix of homeowners with diverse incomes. If a neighborhood is experiencing pressures that could displace long-time residents, that might signal the start of gentrification and be a good time to consider SEH programs.

Rising Rents	Rent prices can also track housing market stability. If local renters are surpassing the 30% rule, which states that (generally speaking) households should not spend over 30 percent of their gross monthly income on rent, this may be another sign that SEH may be appropriate.
Agency Mission	Some agencies have an overarching mission that relates to building resident ownership or growing community-controlled development which certainly suggests that SEH housing be considered as a potential program option.
The Bottom Line	If homeownership starts to appear unattainable, it may be time for at least a targeted analysis. SEH is an asset-based approach, and although it takes time, effort, and financing to pull it all together, it is tried and true. To get started, the agency must look at the cost of development and will likely need to provide access to down payment assistance as well.

**Benefits of SEH**

Shared equity housing allows access to homeownership for households who may otherwise not be able to afford it. SEH keeps housing affordable for future generations and stabilizes neighborhoods by preserving that affordability over time. It gives residents a way to control escalating housing prices and can help close the racial wealth gap. Benefits include financial security and housing stability, increased assets and future stability, improvements to physical and mental health, and a sense of community and connection to others.



**Shared Equity Models**

Below is a basic overview of common shared equity models. Typical characteristics include:

- Resale restrictions that keep homes affordable
- Sharing of the risks and rewards of homeownership
- Ongoing stewardship and maintenance of the property
- Strong community involvement

Community Land Trusts	Usually, a nonprofit organization owns the land, and the buyer owns the home as well as any ‘improvements’ on the land. A ground lease specifies that the home must be resold at an affordable price to an income-qualified buyer.
Limited Equity Cooperatives	A housing cooperative where owners own shares in the cooperative, governed by the owners. Resale of units are restricted to maintain long-term affordability and shares are sold at an affordable price to an income-eligible buyer.
Deed-Restricted Homes	Homes with price restrictions that are specified in the deed, which must be followed when the home is sold. The home is made affordable initially through subsidies, and stipulations in the deed ensure the home is sold at an affordable price to an income-eligible buyer.
Resident-Owned Communities	Manufactured housing communities where the land is owned and managed by residents in a cooperative ownership agreement. By working together, they can access better financing and build equity. Affordability guidelines are not usually part of the deal, but manufactured homes are generally more affordable. In these communities, residents own their homes.

### Critical Elements

Important ingredients for a successful SEH program include:

**Education and Information.** Agencies considering an SEH model should evaluate their markets, plus take the time to review existing materials and resources to determine if the program is right, and which model is most appropriate. The first step is to determine if SEH can help solve problems that the community faces. Research should include discussions with other successful programs in similar markets. Ultimately, a resident centered approach will work best. Potential buyers, current homeowners, and program partners will need ongoing information and education.

**Financial Feasibility.** Along with examining market conditions, agencies will need to determine financial feasibility and outline potential financial resources available to do the work.

**Detailed Implementation Plan.** The agency must create a clear plan for implementation that includes pre-development work as well as detailed startup designs. Be strategic and determine which development roles are right for your organization.

**Creativity.** SEH programs do not need to be solely acquisition / resale or new builds. Agencies can transition multifamily housing into shared equity housing cooperatives or recruit existing homeowners into an existing community land trust.

**Partnerships.** Various partners are needed to build a sustainable program. This includes local governments, nonprofits, funders, lenders, down payment assistance programs, housing counseling and education providers, real estate brokers and agents, local residents, and other stakeholders in the community. Remember that legal agreements alone do not guarantee ongoing affordability, and that partnerships and research will be key to long-term success.

**Sharing Success.** Engage the community and be prepared to demonstrate the value and benefit of the program. Create a solid communication strategy to share information and outcomes and facilitate community conversations. Conduct outreach, facilitate focus groups and brainstorming sessions, and find ways to demonstrate the value of preserving affordability for the long term.

### Share the Story: SEH Explainer Video

Here's a short video by NeighborWorks America explaining the value of shared equity housing strategies. <https://www.youtube.com/watch?v=e3-iAqGfRcM>



### Resources

#### **Report on NW SEH Initiative to Date**

<https://www.neighborworks.org/research/advancing-the-promise-of-shared-equity-housing-models>

#### **Guide to SEH Models**

<https://www.neighborworks.org/research/shared-equity-cooperatively-owned-housing-guide-to-navigating-models>

#### **Report on NW SEH Initiative to Date**

<https://www.neighborworks.org/research/advancing-the-promise-of-shared-equity-housing-models>

#### **From Silos to Collaborations: Building a Health Partner Investment Strategy**

Toolkit to help leaders build sustainable partnerships with health partners

<https://www.neighborworks.org/research/from-silos-to-collaborations-building-a-health-partner-investment-strategy>

#### **Model Deed Restriction and Model Ground Lease (and other resources)**

<https://groundedsolutions.org/tools-for-success/resource-library>

#### **General resources about SEH mortgage lending access**

<https://groundedsolutions.org/tools-for-success/resource-library/mortgage-financing-options>

#### **NEW NeighborWorks Course: Shared Equity: More than One way to Own a Home**

NeighborWorks America launched a new course in fall 2022, which provides the history and design elements of four SEH models: housing cooperatives, community land trust, deed restricted homeownership programs and resident owned communities.

<https://www.neighborworks.org/Training-Services/Training-Professional-Development/Course-Details?course=CL216>